

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7262

BILL NUMBER: SB 496

DATE PREPARED: Jan 14, 2002

BILL AMENDED:

SUBJECT: Levy limitations related to reassessment.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: In computing maximum levies, this bill limits the increase in the assessed value (AV) growth quotient to the lesser of: (1) 10%; or (2) the rate of inflation for state and local government consumption expenditures and gross investment plus 2.5%.

The bill requires the Department of Local Government Finance (DLGF) to adjust maximum tax rates, certain deduction percentages, and base assessed values in tax increment finance areas (TIF) set by statute to neutralize the effects of a general reassessment and annual assessed value adjustments. The bill also updates population parameters to reflect changes in the 2000 decennial Census.

Effective Date: March 1, 2002 (retroactive); July 1, 2002.

Explanation of State Expenditures: *Maximum Levies:* Under current law, the state pays a 20% property tax replacement credit on most operating funds. The state also pays homestead credits equal to 10% through CY 2003 and 4% beginning in CY 2004. If a change in maximum levy limitations causes a change in actual property tax levies, the amount that the state pays for these two credits would be affected. PTRC and homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. A change in PTRC and homestead credit expenditures would ultimately affect the state General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Maximum Levies:* Under current law, civil taxing unit maximum operating levies grow at the three year (excluding reassessment years) average rate of assessed value growth with a minimum of 5% and a maximum of 10%. Under this bill, beginning in 2003, the maximum levy

would grow at the government consumption inflation rate plus 2.5%. Maximum levy growth would still be capped at 10%. The annual growth in the government consumption inflation rate has ranged from 2.0 % to 4.1% during the last five fiscal years. When the additional 2.5% is added to the inflation rate, the resulting growth factor would have ranged from 4.5% to 6.6% over those same years. The FY 2001 growth factor would have amounted to 6.0%.

In years when this growth factor is below 5%, maximum levies would grow at a slower rate under this proposal than under current law. However, in years when the growth factor is above 5%, maximum levies would grow at a faster rate under this proposal than under current law.

Assessed Value and Tax Rate Adjustments: Under current law, cumulative fund rates are to be adjusted each time there is a general reassessment in order to negate the effects of reassessment of the fund levy. This bill would continue the cumulative fund rate adjustments at general reassessment and would also require that the rates be adjusted each year that there is an annual AV adjustment, beginning in CY 2006.

The bill also would adjust the base assessed values in TIF districts and the deduction amount for real property abatements each year that there is an annual AV adjustment in order to negate the effects of reassessment.

The tax rate changes contained in this bill would keep certain funds from experiencing windfall revenues due to higher reassessment valuations and the assessed value adjustments would ensure that real property abatement deduction amounts are not distorted by reassessment changes.

State Agencies Affected: Department of Local Government Finance (State Tax Board).

Local Agencies Affected: County auditors; Redevelopment commissions; Civil taxing units.

Information Sources: Local Government Database; Bureau of Economic Analysis.